GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2951
ANSWERED ON:10.08.2001
INSPECTION OF BANKS
PRABHUNATH SINGH

Will the Minister of FINANCE be pleased to state:

to reply given to Unstarred Question No. 6185 on April 27, 2001 regarding inspection of banks by RBI and state:

(a) whether the said information has been collected;

(b) if so, the details thereof; and

(c) the action initiated by the RBI against banks for frauds and scams?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATH):

(a) Yes, Sir.

(b) Reserve Bank of India (RBI) has reported that certain irregularities revealed in itsearlier inspection reports such as inadequate credit appraisal, lax post-supervision follow-up of credit and divergence in asset classification and consequential short provisioning, non-adherence to prescribed guidelines/instructions on bills discounting liquidity and funds management, system and internal control, computerization of banks` operation etc., still persist. These shortcomings/deficiencies are closely monitored by RBI through issue of supervisory letters to the Chief Executives of banks concerned and also discussions with them to ascertain the latest position and the action taken/proposed to be taken to rectify the deficiencies within a stipulated time period. RBI has further reported that the banks have been responding positiveiy to the advice tendered during the discussions and furnish satisfactory compliance to the findings of the inspection team.

RBI places before the Board for Financial Supervision the memorandum based on the findingsof inspection reports of all banks, together with the Monitorable Action Plan agreed to bythe banks during the annual financial inspection discussion. RBI monitors the compliance furnished by the bank in this regard. RBI has reported that the major factor that contributedto perpetration of fraud were non-adherence to the prescribed procedures, negligence of staff, inadequate supervision exercised by the banks` controlling offices over their branches, encashment of forged instruments, violation of systems and procedures in conduct of loan accounts, establishment of letters of credit in excess of the sanctioned limits and discounting of bills there-against, granting of clean overdraft, issue of banker`s cheques and drafts without corresponding credit leavings unauthorized accommodation for a few days on each account, lack of follow-up of the credit facility at branch and controlling office level, absence of periodical verification of security items like bank demand draft, cheque books etc.

(c) The Public Sector Banks in conjunction with the Government and RBI have taken a numberof steps for prevention of frauds. These steps include strengthening of the internal control machinery, review of fraud cases on continuing basis, advising banks of modus operandi in ingenious cases along with required safeguards to prevent their recurrence, proper training of operational personnel, investigation and scrutiny into reported cases of major frauds, snap inspection covering systems and procedures and control arrangements in fraud prone areas, obtaining control returns and scrutiny thereof and improving house keeping. Banks also undertake concurrent audit covering 50 per cent of their business, scrutinize cash deposits and withdrawals of Rs. 10 iakhs and above. Besides, banks take regular departmental action and punish officials found involved in cases of frauds. Banks also file civil and criminal suits and seek appropriate relief. Cases are referred to CBI and Police wherever considered necessary.